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UNCLAS SECTION 01 OF 03 KINGSTON 002163

SIPDIS

STATE FOR WHA/CAR/ (WBENT), WHA/EPSC (JSLATTERY)

SANTO DOMINGO FOR FCS AND FAS

TREASURY FOR L LAMONICA

E.O. 12958: NA

TAGS: ETRD ECON EINV XL JM

SUBJECT: TEXTILES AND APPAREL SECTOR: UPDATED STATISTICS  
AND PROJECTION OF FUTURE COMPETITIVENESS

REF: A. STATE 146213

B. 03 KINGSTON 141419

¶1. This cable responds to ref A tasking.

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Background  
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¶2. Textiles and apparel became Jamaica's leading non-traditional export during the early 1990s, after Jamaica started benefiting from the Caribbean Basin Initiative (CBI). The benefits from this U.S. program allowed the sector to record robust growth between 1990 and 1995 and were largely responsible for the mushrooming of the island's non-traditional export sector. In 1990, export earnings from the sector amounted to only USD 116 million, or just under 10 percent of total exports, but by 1995 earnings surged to USD 619.6 million or 30.1 percent of exports. However, the sector started to register reversals in 1996, due to the onset of NAFTA and the consequent diversion of trade to Mexico, as well as the relative attractiveness of low cost Latin American labor. The decline accelerated after 2000 due to the underlying Jamaican macroeconomic environment within which manufacturers had to operate, including frequent bouts of exchange rate instability, high interest rates and relatively high labor costs. These, combined with rising utility and security costs, drove overheads through the roof and local manufacturers exited the sector in droves, while most free zone producers either closed operations or relocated to other low cost destinations such as the Dominican Republic.

¶3. Jamaica's textiles and apparel sector also became a significant contributor to employment, particularly for low-and semi-skilled women. Job creation in the free zone rose to a high of 10,714 in 1995. However, by the end of 2004 employment had dwindled to 1,367. This dramatic fall-off, combined with a commensurate decline in domestic textiles and apparel employment, was largely responsible for the rapid increase in Jamaica's female unemployment rate, which was 16.4 percent at the end of 2004. Figures from the free zone revealed that the textiles and apparel sector has almost disappeared from the Jamaican landscape, as earnings have fallen to USD 21.6 million or 3.4 percent of exports at the end of May 2005. Free zone employment through July 2005 has also sunk to a low of 128. Recognizing that the country's once flourishing textile and apparel sector was in trouble, the GOJ embarked on a program to transform the industry from basic assembling to full package production, which requires value-added processes, fabric supplies and a highly skilled labor force. In the last two years Jamaica has also been creating waves in the international fashion markets and, unlike the previous foray, the recent thrust has been largely private sector driven.

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Answers To Reftel  
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¶4. Total Jamaican industrial production for 2004 was USD 1.1 billion, while textiles and wearing apparel output for the same period was 8.3 million or 0.8 percent of industrial production. Data is not yet available for ¶2005. Free zone production is not counted as part of GDP or domestic exports.

b. Textiles and apparel exports amounted to USD 137.2 million (includes free zone) in 2004 and USD 21.6 million for January to May 2005. Textiles and apparel imports for January to September 2004 were USD 91.7 million. Import data is not yet available for 2005. Textiles and apparel exports accounted for 8.9 percent of total exports in 2004 and 3.4 percent for January to May 2005, while textiles and apparel imports accounted for 3.2 percent of total imports.

c. Total manufacturing employment was 69,400 in 2004 and 73,000 for the first six months of 2005. Total free zone textiles and apparel employment was 1,367 during 2004, but has declined to 128 at the end of July 2005. No data is available for domestic employment in 2004 or 2005. When domestic employment data was last published in 2002, 12,054 persons were employed in large establishments (companies employing a minimum of 50 persons). It is relatively safe to assume that the number of employees has fallen in tandem with the decline in output and earnings (down 30.3 and 82.6 percent, respectively).

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Additional Information Requested  
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15. Despite the downturn in Jamaica's textiles and apparel industry, the country's producers have not seen much change in prices. Producers have been receiving a similar number of orders, but local operational costs (including shipping) have risen faster than competitors' costs have risen in China, India and Pakistan. According to Kenrick McFarlane of the Port Authority of Jamaica (PAJ), North American and Far Eastern companies who set up operations in Jamaica primarily to benefit from quota restrictions in their home markets were forced to close their factories and relocate.

16. Jamaica's export prospects have not been affected by the U.S. safeguards or the EU agreement with China to limit the import growth of certain textiles and apparel products. Arlene Martin of JAMPRO told emboff that the GOJ has not seriously considered the implementation of safeguards or other measures to reduce the growth of imports because the industry has been declining for such a long time. McFarlane, in supporting this view, said that once the GOJ realized that the country had become uncompetitive, apparel production was de-emphasized and information technology became the rising star.

17. The increased global competition has not affected local labor conditions. On the contrary, it is the increasing labor costs relative to competitors that have been one of the major reasons for the demise of the local industry. Jamaicans working in the textiles and apparel industry are generally paid a premium above the country's minimum wage, which acts as a floor. Therefore with each annual increase in the country's minimum wage, there is a commensurate increase in wages paid in the industry. Jamaica's labor rates are currently over USD 1.50 per hour and rising.

18. Given that the garment industry has been a major source of employment and export earnings for the last decade, the GOJ took a number of steps to stem its demise. The PAJ'S McFarlane said that in the latter part of 1999 a fund was established to reduce operational costs, but the resources were exhausted in one year and most of the firms that benefited closed shop thereafter. Michael Anderson of the Kingston Free Zone also explained that the GOJ made frequent adjustments to the Free Zone Act to make it easier for companies that did not fit the free zone profile to benefit under the act. In addition, the free zone constantly reduced rental cost and improved security arrangements. Attempts were also made to improve the bureaucracy at Customs, resulting in a significant reduction in red tape. JAMPRO'S Martin told emboff that the GOJ also discussed the revival of the textile industry, but no action was taken. She said the GOJ agreed instead to concentrate on the development of the design products market. However, Martin said that the country was already experiencing production problems in this niche market and serious consideration was being given to the idea of outsourcing production to other countries.

19. Jamaica is currently a beneficiary of Caribbean Basin Trade Partnership Act (CBTPA), but McFarlane of the PAJ said that not even the benefits under this program were sufficient to cushion the high overhead costs. (Ref B).

10. When asked about the future of the country's textiles and apparel industry, Anderson said the sector was dying a slow death, largely because producers cannot deal with the competition from lower overhead producers in Mexico and China. He said that the largest remaining producer closed shop earlier this year, leaving only two apparel firms employing 46 people in the Kingston Free Zone. When posed the same question, McFarlane opined that the sector has structural problems, which will make it impossible for manufacturers to produce large volumes and remain competitive. He pointed to energy and security costs as the major problems. JAMPRO'S Martin, who shares a similar view, said that the fashion industry (designer clothing) is now Jamaica's best option, since this higher value-added product already enjoys a presence in the international marketplace. However, she suggested that

serious consideration has to be given to outsourcing production.

¶11. The Jamaican textile and apparel industry faces a number of challenges. Chief among these are the removal of preferential access to key markets following the removal of the quota system; competition from low cost producers; a large untrained labor force; small factories that inhibit the achievement of economies of scale; dependence on a few markets and on imported inputs; and, high overhead costs. Therefore, unless the country creates niche markets in the very short term, the sector could be decimated before the end of 2005.

TURNER